

**Borrowing Due to Delay of June 22 State Aid Payment
Questions and Answers**

Q1 What state aids will be part of the delayed June 22 state school aid payment?

A - All CEIFA aids listed on the district's state aid payment schedule will be part of the delay. In addition, Abbott districts will have the final preschool expansion aid payment delayed.

The district's actual cash payment will be the revenues identified above offset by any adjustments (e.g. Katzenbach). Details on the end of year reporting for the delayed payment and recording of adjustments are provided in the annual audit program.

Q2 Where can a district confirm the exact amount of the delayed payment?

A - Your county office will have a complete listing by May 10. This amount is calculated as the June 22 last state aid payment offset by any adjustments.

Q3 What specific borrowing authority does the legislation provide?

A - Per 18A:22-44.2, a board of education may execute and deliver promissory notes on or before June 30 of the current budget year with a loan effective date no earlier than June 22.

The notes must mature on or before the date of the payment of the delayed June state school aid payment and may be redeemable prior to maturity. The amount borrowed will constitute a general obligation of the board but will not constitute gross debt for purposes of N.J.S.A. 40A:2-43.

Q4 Does the department need to approve all borrowing due to the delay in the June 22 state aid payment?

A - Yes, the department must approve all borrowing. Approvals will be granted upon written application and demonstration of need by the board. All approved loans will be repaid by the department to the lending bank from the district's state aid payment.

Q5 Will the state pay for interest costs associated with the borrowing?

A - Yes. The department will reimburse for all approved interest on approved loans. The department will deduct any unapproved interest and other bank fees from the district's state aid payment and pay the total loan due (interest, bank fees and principal) directly to the lending bank. (See Q16 and Q17 for more information on interest rate approval.)

Q6 Will the State reimburse districts for other costs related to the loan (e.g. bond counsel)?

A - No. As the application outlines, the State will reimburse districts only for the interest cost related to any necessary and approved borrowing. The State has developed a standard promissory note to be used by districts as needed to reduce costs, however, it is anticipated that these other costs should be minimal or non-existent given the short term nature of the borrowing and the state's authority under the legislation to pay the lending bank directly for the approved principal and interest.

Q7 Will the State approve the district's application with any interest rate stated in the written bank proposal.

A - No. The State will review all applications submitted and determine a reasonable and acceptable current interest rate. Districts that exceed that rate will be notified and requested by the State to shop around further if they wish to be reimbursed for interest costs.

Q8 When will the delayed state aid payment be made and what maturity date should be used on the short term loan?

A - The delayed payment is anticipated to be made on either July 2 or July 6 and all borrowing should be structured with a maturity date of no later than July 6. The application should include interest costs calculated both through July 2 and July 6.

Q9 Can a district select any bank eligible to provide short term loans to New Jersey school districts under existing statute and guidelines?

A – Yes.

Q10 On what tax basis can the approved short term loans be issued?

A - The short term loans authorized under the proposed legislation can be issued either on a taxable or tax-exempt basis.

Application to Borrow and Cash Flow Worksheet

Q11 Has the application to request department approval to borrow been distributed?

A - Yes, the application was Emailed to the county offices for distribution to all districts on April 30, 2004.

Q12 Is the application posted on the department's website?

A - Yes. The April 30 memo and application are posted on the department's website at <http://www.nj.gov/njded/finance/fp/af/borrow/> .

Q13 Is every district required to complete an application and the cash flow worksheet?

A – No. Only those districts that need to borrow for cash purposes due to the delayed payment must complete the application, cash flow worksheet, and supporting documentation (required supporting documentation is identified with an “*” on the cash flow worksheet).

Q14 Should the cash flow worksheet be completed only for the general fund?

A - Yes. The starting cash balance on line 1 should represent sub funds 11, 12, 13, and 15.

Q15 How does a district show on the worksheet their need to borrow due to the delayed restricted aid payments recorded in the special revenue fund (ECPA, DEPA, DLNA and ISA) when the cash flow analysis is only for the general fund?

A - If the delay in the June 22 payment of ECPA, DEPA, DLNA and ISA causes a cash shortfall in Fund 20, the anticipated cash shortfall should be recorded on line 18a, b c, etc. as a transfer in June to the applicable program.

Each program should be listed separately and the County Superintendent may request any additional support (e.g. specific fund 20 program cash balances, receipts/payables) as needed. The restricted aid payments should not be recorded on lines 7, 8, or 9.

Q16 What specific revenue payments should be listed on lines 7, 8 and 9 of the cash flow worksheet?

A - Line 7 should include all of the district’s general fund CEIFA state aid payments and Abbott parity aid. For non-Abbott districts, this would include all CEIFA state aid payments except for ECPA, DEPA, DLNA, and ISA, and for Abbott districts this would include all CEIFA state aid payments except for ECPA.

Line 8 should include all other state payments. For Abbott districts, this would include other state revenues, such as additional Abbott v. Burke state aid. Any cash transfer to special revenue of additional Abbott v. Burke aid payments should be shown on line 18 separately.

Line 9 should be used for unrestricted federal revenues included in the general fund, such as Impact Aid. For Abbott districts, this would also include the transfer of the federal funds authorized under schoolwide program status to be blended in Fund 15.

Q17 What is required to receive department approval to have interest on an approved loan reimbursed?

A - Districts requesting department approval for reimbursement of interest on the approved loan must include with their application a letter from the district’s bank of

choice stating the interest charges. Applications without a bank proposal letter may still be approved for a loan and State payment of the principal amount, but cannot be approved for State reimbursement of interest. (See Q5 for repayment of loan when interest is not approved.)

Q18 Is a district required to seek quotes from several banks before it submits the interest costs as stated in a bank proposal letter?

A – No. Formal bidding and quotations are not required under the Public School Contracts Law for this borrowing; however, the department recommends districts seek quotes from more than one institution for interest and other borrowing costs.

Q19 Can a district still request approval for a loan without a proposal from the bank of choice stating the total interest costs?

A – Yes, however, the state will not approve for reimbursement of interest without a bank proposal letter at time of application. (See Q5 for repayment of loan when interest is not approved.)

Q20 When are the applications due to the department?

A – All applications with the requested supporting documentation must be submitted to the district's county superintendent by May 21, 2004. Complete applications received by the close of business (COB) on the 21st will have decisions rendered by the County Superintendent by June 7, 2004. Due to the tight timelines, the department cannot guarantee review and approval of any application and/or supporting documentation received after COB on the 22nd.

Q21 Does a district need to provide any additional information to the department following approval to borrow?

A - Yes. Every district must send the department the district's signed promissory note, final application, and copy of the county office approval letter no later than June 22 to ensure timely payment and reimbursement to the district's chosen bank.

Q22 Where does a district send a copy of the signed promissory note?

A – The signed note, final application, and county office approval letter should be sent to Yut'se Thomas, Director, Office of School Funding, Department of Education; PO Box 500; Trenton, New Jersey; 08625-0500.

Q23 What does the amount on Line 20 of the Cash Flow Worksheet represent?

A – The amount on Line 20 represents the district's estimated general fund cash balance at June 30, 2004. This may also include selected net estimated special revenue fund shortfalls as reported on cash flow worksheet Line 18. The amount of the approved short-term loan will be the lesser of this amount on Line 20 or the amount of the delayed state aid payment.